

## Message Text

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C O N F I D E N T I A L STATE 272501

FOR ASSISTANT SECRETARY ENDERS

FOLLOWING REPEAT ALGIERS 3352 ACTION SECSTATE 14 NOV 75

QUOTE

C O N F I D E N T I A L ALGIERS 3352

E.O. 11652: GDS

TAGS: ENRG, AG

SUBJECT: LONG-TERM ALGERIAN PLANS RE GAS SALES

1. SUMMARY: IN ORDER TO SUPPLY GAS CONTRACTS SIGNED OR ABOUT TO BE SIGNED WITH US, SONATRACH ESTIMATES IT WILL HAVE TO BORROW \$6 BILLION. ACCORDING SONATRACH OFFICIAL, ALGERIA CLOSE TO THREE GAS DEALS WITH EUROPEAN CUSTOMERS, WHICH WOULD NECESSPTATE FURTHER \$2 BILLION PLUS IN BORROWING. MAGNITUDE OF ALGERIAN APPETITE HAS EXTENSIVE POLITICAL AS WELL AS ECONOMIC AND FINANCIAL RAMIFICATIONS FOR BOTH US AND ALGERIA. END SUMMARY.

2. SLIMANE BOUGUERRA, SONATRACH'S DIRECTOR OF EXTERNALHMARKETING DISCUSSED ALGERIA'S LONG-TERM GAS EXPORT STRATEGY WITH EMOFF NOV. 12. BOUGUERRA NOTED  
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INITIALLY THAT HE WOULD SIGN LNG CONTRACT WITH

DISTRIGAS (US) IN NEW WEEK OF NOV. 17 AND THAT THIS WOULD BE LAST IN CURRENT SERIES OF GAS CONTRACTS WITH US FIRMS.

3. BOUGUERRA THEN SAID THAT TWO ADDITIONAL LNG SYSTEMS WOULD BE NECESSARY TO PROCESS OVER 2 BILLION CUBIC FT/DAY OF GAS TO SUPPLY CONTRACTS WITH US COMPANIES SIGNED THIS FALL. SONATRACH STUDIES HAVE REVEALED THAT COST OF A 1 BILLION CUBIT FT/DAY LNG SYSTEM (FROM GATHERING THROUGH FIELD PROCESSING, PIPING AND LIQUEFACTION BUT NOT INCLUDING TANKERS) WOULD COST ALGERIA \$2.3 BILLION. THUS FOR TWO PLANTS SONATRACH WOULD REQUIRE \$4.6 BILLION IN FINANCING. SONATRACH ALSO PLANNED HAVE BUILT 10 TANKERS. IN ADDITION, THERE WOULD NEED TO BE FURTHER BORROWING TO COMPLETE LNG PLANT AT ARZEW NOW UNDER CONSTRUCTION. IN TOTAL, BOUGUERRA SAID ALGERIA WILL NEED \$6 BILLION IN FINANCING TO REALIZE CONTRACTS SIGNED OR ABOUT TO BE SIGNED WITH US.

4. EMBOFF REPLIED THAT SUCH FIGURE STAGGERED THE IMAGINATION AND SKED HOW SONATRACH PLANNED TO SEEK SUCH AN AMOUNT. BOUGUERRA'S REPLY WAS THAT IN ALGERIA'S EYES DAY AFTER DAY IT BECOMING INCREASINGLY EVIDENT THAT US MUST HAVE ACCESS TO LARGE ADDITIONAL SUPPLIES OF GAS. ALGERIA HAD THIS GAS AND THEREFORE MATCH OF US WITH ALGERIA A NATURAL, WITH US SOURCES--BOTH PRIVATE AND GOVERNMENT--TO PROVIDE THE NEEDED FINANCING.

5. THROUGHOUT CONVERSATION, BOUGUERRA'S CONSTANT THEME WAS THAT EXPLOITATION OF GAS WAS ESSENTIAL FOR ALGERIA'S DEVELOPMENT AND FUTURE, THAT THESE US CONTRACTS AND FINANCING REPRESENTED BEST METHOD. HE STRESSED SEVERAL TIMES THAT ALGERIANS "COULD NOT AFFORD TO FAIL" IN THIS EFFORT TO COMMERCIALIZE GAS RESERVES.

6. TURNING TO EUROPE, BOUGUERRA SAID HE CLOSE TO DEAL WITH THREE EUROPEAN COUNTRIES. WHILE BOUGUERRA DECLINED SPECIFY WHICH EUROPEAN COUNTRIES, HE DID NOTE CONFIDENTIAL

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THAT HE HAD TALKED WITH BELGIANS, FRENCH, AND WOULD MEET GERMAN DELEGATION NOV. 13. HE ADDED HE EXPECTED EUROPEAN CONTRACTS WOULD AMOUNT TO 1 BILLION CU. FT. PER DAY IN TOTAL AND SAID HE WAS CONFIDENT ABOUT OBTAINING GOVERNMENT FINANCING IN EUROPE.

7. BOUGUERRA THEN ADMITTED THAT ALGERIAN LNG PERFORMANCE TO DATE HAD NOT BEEN GOOD, BUT SAID PLANTS

BUILT THUS FAR WERE REALLY PILOT PLANTS. ALGERIA WAS LOSING MONEY ON EVERY CUBIC FOOT OF GAS EXPORTED. NEVERTHELESS, ALGERIA HAD STUCK BY ITS LNG CONTRACTS DESPITE THIS AND HAD REJECTED OFFERS FROM US COMPANIES AS HIGH AS \$4.00 PER MMBTU FOR SPOT LOADS.

8. US SHOULD HAVE NO WORRY ABOUT RELIABILITY OF ALGERIA AS AN LNG SUPPLIER, BOUGUERRA CONCLUDED. ALGERIA NOW HAD EXPERIENCE IN LNG TECHNOLOGY AND UNDERSTOOD IT. ALSO, IF ALGERIA WERE TO BORROW \$6 BILLION, IT COULD NOT AFFORD TO SUSPEND PRODUCTION EVEN FOR A VERY BRIEF PERIOD OF TIME.

9. COMMENT: POLITICAL, ECONOMIC AND FINANCIAL RAMIFICATIONS OF THE SONATRACH PLANS, EVEN IF PRESENTATION ABOVE TAILORED FOR US AUDIENCE, ARE FAR REACHING. AMBASSADOR WILL DISCUSS THESE WITH WASHINGTON AGENCIES IN UPCOMING CONSULTATIONS. PARKER

UNQUOTE. KISSINGER

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